

CITY OF MILO

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

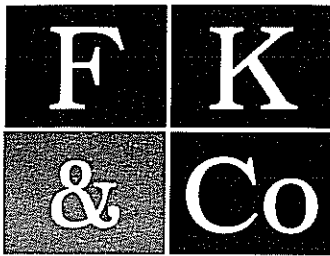
**FOR THE PERIOD
AUGUST 1, 2014 THROUGH JULY 31, 2015**

Table of Contents

| | <u>Page</u> |
|---|----------------|
| Officials | 3 |
| Independent Accountant's Report on Applying Agreed-Upon Procedures | 4-5 |
| Detailed Recommendations: | <u>Finding</u> |
| Segregation of Duties | A 6 |
| City Council Minutes | B 6 |
| Deposits and Investments | C 7 |
| Reconciliation of Utility Billings, Collections and Delinquent Accounts | D 7 |
| Electronic Check Retention | E 7 |
| Transfers | F 7 |
| Annual Financial Report | G 8 |
| Certified Budget | H 8 |
| Debt Service | I 8 |
| Payroll | J 9 |

City of Milo
Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|-----------------|----------------|---------------------|
| William Hitsman | Mayor | Jan 2016 |
| Scott Graham | Council Member | Jan 2018 |
| Kenneth Doss | Council Member | Jan 2018 |
| Ann Miller | Council Member | Jan 2016 |
| Shawna Beck | Council Member | Resigned |
| Diana Hall | Council Member | Jan 2016 |
| Terry Morgan | Council Member | Resigned |
| Joe Kinser | Council Member | Jan 2016 |
| Misti Kosman | City Clerk | Indefinite |



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor
and Members of City Council:

We have performed the procedures enumerated below which were established pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide oversight of certain Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Milo for the period August 1, 2014 through July 31, 2015. The City of Milo's management, which agreed to the performance of the procedures performed, is responsible for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2015 Annual Financial Report (AFR) to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.

8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.
9. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
11. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
12. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
13. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
14. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

These agreed upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Had we performed additional procedures, or had we performed an audit of the City of Milo, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Milo and other parties to whom the City of Milo may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Milo during the course of our agreed-upon procedures. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Faller, Kincheloe & Co, PLC

November 17, 2015

CITY OF MILO

DETAILED RECOMMENDATIONS

For the period August 1, 2014 through July 31, 2015

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

1. Cash – handling, reconciling and recording.
2. Investing – recordkeeping, investing, custody or investments and reconciling earnings.
3. Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
4. Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
5. Debt – recordkeeping, compliance and debt payment processing.
6. Payroll – recordkeeping, preparation and distribution.
7. Financial reporting – preparing and reconciling.
8. Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

(B) City Council Minutes – The following were identified:

- Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings, including total disbursements from each fund and a summary of all receipts, be published within fifteen days of the meeting. Minutes were published in a town newsletter which does not comply with the Code of Iowa.

Recommendation – The City should comply with Chapter 372.13(6) of the Code of Iowa. In addition, the City should ensure the minutes, total disbursements from each fund, summary of all receipts and ordinances are published as required.

CITY OF MILO

DETAILED RECOMMENDATIONS

For the period August 1, 2014 through July 31, 2015

- (C) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. In addition, deposits exceeded the limit on the resolution naming official depositories adopted by the City Council on April 18, 2005.

Recommendation – The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa. The City Council, by resolution, should approve amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

- (D) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent account listing was not prepared monthly.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The reviews should be documented by signing or initialing and dating the reconciliations.

- (E) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

- (F) Transfers – The City transfers money to and from various funds periodically. However, these transfers were not always approved by the City Council prior to the actual transfer.

Recommendation – The City Council should approve all fund transfers prior to the actual transfer and document approval and amount(s) as part of the minutes record.

CITY OF MILO

DETAILED RECOMMENDATIONS

For the period August 1, 2014 through July 31, 2015

- (G) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures, the current public debt of the City...” The City’s Annual Financial Report reported receipts, disbursements and fund balances which do not agree with the City’s records. In addition, the City did not report the debt on the City’s Annual Financial Report.

Recommendation – The City should ensure all amounts included in future Annual Financial Reports are supported by the amounts recorded in the City’s records. In addition, the City should ensure that all debt of the City is included on future Annual Financial Reports.

- (H) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amount budgeted in the public works and general government functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.” Also, the budget amendment was not approved prior to May 31, 2015.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget and prior to May 31, 2015.

- (I) Debt Service – A portion of the general obligation fire truck note payment was recorded in the General Fund rather than the Debt Service Fund as required by Chapter 384.4 of the Code of Iowa.

Recommendation – General obligation note payments should be recorded in the Debt Service Fund as required by Chapter 384.4 of the Code of Iowa.

CITY OF MILO

DETAILED RECOMMENDATIONS

For the period August 1, 2014 through July 31, 2015

(J) Payroll – The following were identified:

- Although time sheets were maintained for all employees, there was not always an indication that the time sheets had been reviewed and approved by appropriate supervisory personnel prior to preparation of payroll.
- One of the five employees tested was paid ½ hour more than what was approved on the time sheet.
- The City did not prepare any IRS Forms 1099 for the year ended December 31, 2014. We noted that the City should have issued a Form 1099.

Recommendation – Procedures should be established to ensure timesheets are reviewed and approved by supervisory personnel prior to preparation of payroll. Supervisory review/approval should be evidenced by the supervisor's initials and the date approved.

Also the City should file IRS Forms 1099 when applicable.